



City of Portland
General Fund Forecast
FY 2017-18 through FY 2021-22
City Budget Office
April 2017

I. FORECAST SUMMARY

Portland has grown and changed dramatically over the last decade. It continues to attract wealth – particularly from California – and the young and highly-educated. It has also become a significant tourist destination. All of this has fueled unprecedented revenue growth for the City, resulting in \$18.6 million in additional resources in FY 2017-18 above what is necessary to continue existing programs.

City financial policies require that the City balance its budget over the entire five-year forecast. This means that, to the extent forecasted revenues in year five of the forecast are insufficient to cover expected costs in the same year, the policy requires cuts be enacted in year one of the forecast to set the budget on a sustainable course.

The Mayor's Proposed Budget does not include the expectation that the City will collect the business license CEO surtax passed last year. The surtax depends on regulatory disclosures, and the federal government has indicated it will either not enforce or eliminate the provision that each publicly-traded company report the ratio of CEO pay to its average worker. The meaningful revenue impact would not materially change collections in FY 2017-18, but would remove about \$2.5 million in the out years of the forecast. ***For budgeting purposes, this means that the Mayor's Proposed Budget includes approximately \$2.3 million in ongoing cuts and budgets \$20.9 million in one-time resources.***

Table 1 summarizes discretionary General Fund resources and expenses through FY 2021-22. As shown in Table 1, assuming the collection of the City's CEO surtax the City will have \$0.2

FORECAST HIGHLIGHTS

New Ongoing: \$0.2 million

New One-Time: \$18.4 million

Significant Changes Since February:

- Minor changes to revenue and expense forecasts
- Increased forecast for business license taxes
- Higher out-year inflation forecast

LOCAL ECONOMIC HIGHLIGHTS

- Home prices up about 10%
- Rents rising but growth, especially at high end, is waning.
- Local unemployment rate dips to new record low.
- Port activity booming – passenger traffic at record levels and freight activity off of lows that followed labor dispute.

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million in additional ongoing resources and \$18.4 million in one-time resources above projected expenditures, with an additional \$10.6 million in fiscal year 2018-19. City financial policy states that at least 50% of these funds be spent on major maintenance and replacement of City assets.

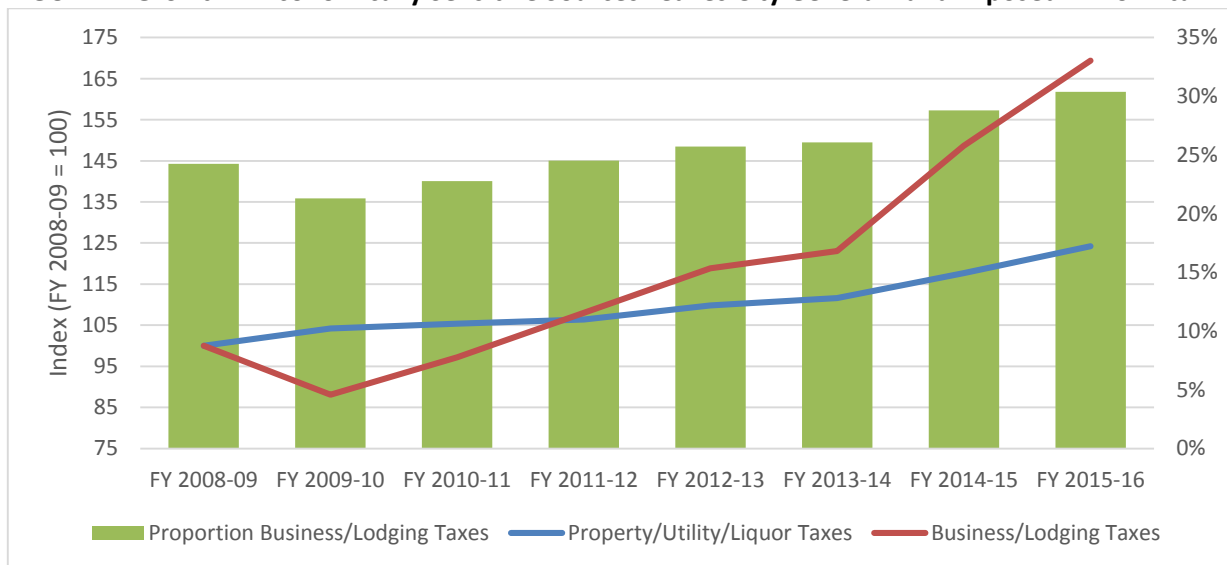
TABLE 1. Discretionary General Fund Five-Year Forecast (\$millions)

Budget Category	Fiscal Year					
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Total Resources	\$501.4	\$513.1	\$519.3	\$530.9	\$545.0	\$560.4
Total Expenses	\$501.4	\$494.5	\$508.7	\$528.8	\$544.7	\$560.4
Available Ongoing		\$0.2	\$0.0	\$0.0	\$0.0	\$0.0
Available One-Time		\$18.4	\$10.6	\$2.1	\$0.3	\$0.0
Total Expenses with Adds & One-Time Spending	\$501.4	\$513.1	\$519.3	\$530.9	\$545.0	\$560.4

Note: Totals may not add due to rounding. FY 2016-17 figures are for the Adopted Budget.

It is important to note that the \$18.6 million surplus is actually more than \$30 million, but Council previously approved increases in police officer pay, increases to the City’s contribution to the Joint Office of Homelessness Services, and a new system of publicly financed elections. The City continues to experience record revenues combined with very low inflation. Budgeted General Fund discretionary revenues have jumped from \$396.7 million in FY 2013-14 to more than \$513 million in just four years, due in large part to dramatic increases in business license and transient lodging taxes. Figure 1 highlights just how fast these two revenue sources have grown relative to the General Fund’s more stable revenue sources. Because these sources are highly sensitive to economic conditions and they represent a larger portion of the General Fund than ever before, the City budget more exposed in the event of an economic slowdown.

FIGURE 1. Growth in Economically Sensitive Sources Leaves City General Fund Exposed in Downturn



II. REVENUE/EXPENSE FORECASTS

Significant Changes. Nearly all changes to the forecast were minor. With respect to the revenue and expense forecasts, the only significant change was to business license taxes, which added \$2-\$4 million annually to the revenue base. A small increase in the out-years of the utility license tax/franchise fee forecast also added slightly to the available ongoing resources. Meanwhile, the only major change to the expense forecast was an increase in the expectations for near-term inflation, offsetting some of the revenue forecast increases.

TABLE 2. Changes to Revenue Forecasts from February (\$millions)

Resource Category	April Forecast	FY 2017-18 Change	Total 5-Year Change
Property Taxes	\$245.8	\$0.0	\$0.0
Transient Lodging	\$33.8	(\$0.6)	(\$0.6)
Business Licenses	\$114.0	\$4.0	\$18.0
Utility License/Franchise	\$82.6	(\$0.4)	\$2.3
State Revenues	\$17.5	\$0.0	\$0.0
Other	\$1.8	\$0.0	(\$0.2)
Total Revenues*	\$495.6	\$3.3	\$19.7

Note: Totals may not add due to rounding. *Not including Beginning Balance

Major Assumptions. This forecast assumes that local economic growth has already peaked, but will continue to grow, albeit at slightly slower levels. This has already been seen in employment growth figures as the very tight labor market is making it difficult for employers to find workers. We expect these conditions will result in further increases in wages. Though a recession does not appear imminent, there are many modest signs of slowing growth. Additionally, uncertainty around state and federal policy could limit investment, as banks have already begun increasing lending standards.

Major Forecast Risks

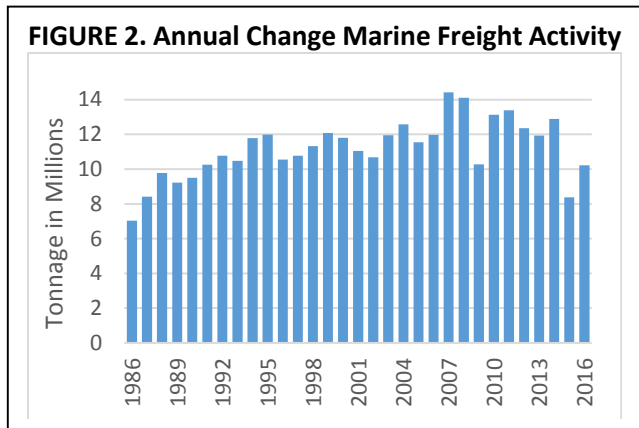
Federal/State Policy Uncertainty – Though very early in the new presidential administration, the uncertainty surrounding a myriad of economic and social policies may already be impacting investment. Surveys of businesses and consumers show boosts in confidence, but that has not manifest itself in increased spending and investment. Budget cuts at the state level will also act as a drag on growth in the next several years.

Personnel Costs/Labor Contracts – The City spends about three-fourths of its General Fund discretionary budget on personnel. It has already added nearly \$7 million in ongoing costs with just the Police and BOEC contracts completed. If the remaining negotiations continue to add costs – particularly if they do so without adding services – this represents a significant forecast risk.

III. CURRENT ECONOMIC CONDITIONS

As we end year 9 of the current economic expansion, the local economy continues to see healthy jobs growth, albeit slower than the expansion’s peak, and a record low unemployment rate. Table 3 at the end of the document shows many area economic indicators, the relative strength compared to a year ago, and a description of the trend regarding the most recent data points.

Employment. Employment growth has slowed over the last year from over 3% to around 2% growth. This is typical at this point in the business cycle, as the tight labor market makes it difficult to find workers and higher wages begin to bring people back into the labor force. Meanwhile, the unemployment rate in Multnomah County has fallen to 3.2%, the lowest level on record.



Commerce. Figure 2 shows the annual change in marine freight activity at the Port of Portland. After a protracted labor dispute, major shipping company South Korea-based Hanjin Shipping left the port in 2015, which contributed to a decline in total tonnage through the Port falling to 1987. However, freight activity rebounded significantly in 2016. Last year, the Port also saw a record number of passengers through PDX and have announced modest expansion plans at the airport.

Real Estate. Both home sales and rental markets are showing just the smallest signs of slower growth, though predominantly only at the high-end of each market. Home prices are still up by more than 10% and, according to the Regional Multiple Listing Service, inventory – the amount of time it would take to sell all the homes for sale at the current sales rate – has remained below two months for more than two years. Experts believe a balanced market has about six months of inventory.

Inflation. The City and many governments have benefitted from a long-run trend of lower inflation (as measured by the federal Bureau of Labor Statistics). From 1984 to 2000, the Consumer Price Index for Urban Clerical Workers for the Portland-Salem OR-WA area – this is the basis for the City’s cost-of-living allowances (COLA) grew by an average of 3.4%, while over the last 16 years that average has decreased to 2.1%. Figure 3 shows the long-run decrease in price growth by looking at five-year moving averages.

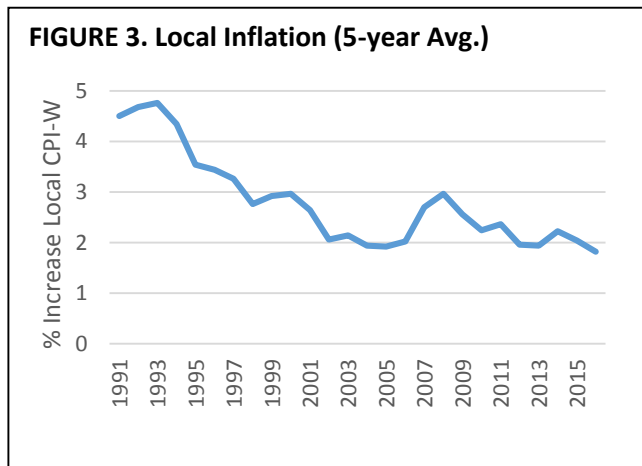


TABLE 3. Selected Portland Economic Indicators

Indicator	Most Recent	Value	Year Ago Change	Recent Trend
Economy				
Total Employment, Portland MSA ¹	3/2017	1,160,800	2.1%	Positive
Multnomah County Unemployment Rate ¹	3/2017	3.2%	-1.1%	Positive
Consumer Price Index, Portland-Salem ²	2H-2016	242.0	2.2%	Neutral
Real Estate				
Median Home Price, Portland Metro ³	3/2017	\$370,000	10.4%	Positive
Portland Metro Industrial Vacancy Rate ⁴	4Q-2016	3.9%	-0.6%	Positive
Portland Office Vacancy Rate ⁴	4Q-2016	8.6%	0.0%	Positive
Portland Multi-Family Vacancy Rate ⁴	4Q-2016	6.8%	1.8%	Positive
Commerce				
Total PDX Air Passengers (Y-T-D) ⁵	3/2017	4,016,955	5.2%	Positive
Total PDX Freight (Y-T-D in Tons) ⁵	3/2017	55,235	1.2%	Positive
Total Port of Portland Marine Freight (Y- T-D in Tons) ⁵	12/2016	10,220,925	22.0%	Positive
Hotel Average Revenue Per Available Room ⁶	4Q/2015	\$83.27	11.0%	Positive
<p>¹ Oregon Employment Department, Unemployment Rate is seasonally-adjusted, Year Ago Change is percentage point increase/decrease</p> <p>² Bureau of Labor Statistics. CPI-W. Portland-Salem, OR-WA</p> <p>³ Market Action, Publication of RMLS</p> <p>⁴ Colliers International, Year Ago Change is percentage point increase/decrease.</p> <p>⁵ Port of Portland, Aviation & Marine Statistics</p> <p>⁶ CBRE Hotels</p>				